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SUBJECT: Baise, Guangxi: Poor Amidst a Wealth of Resources

REFERENCE: A) Guangzhou 4033

(U) This document is sensitive but unclassified. Please protect accordingly.

1. (U) Summary: Baise, Guangxi, is one of China's poorest prefectures and despite relatively successful anti-poverty efforts, accounts for one-fourth of the poor population of Guangxi. The prefecture has rich agricultural, mineral and tourism resources, but is only now developing its economy; earlier, military conflicts with Vietnam had impeded its efforts. Trade frictions with Vietnam could arise as agricultural products in both areas compete with one another. End summary.

2. (U) Baise is located in the mountainous northwestern area of Guangxi Zhuang People's Autonomous Region and borders two Chinese provinces, Yunnan and Guizhou as well as Vietnam. It has a population of about 3.7 million people, and an area of 3.63 million square kilometers. There are seven major ethnic minorities in the Prefecture and the Zhuang people account for 80% of the population. It generally is hard to distinguish them from Han nationality on the basis of looks or lifestyle.

Rich in Resources...Moving Out of Poverty But Staying Poor

3. (U) Baise reportedly has more than 57 types of different mineral reserves, including aluminum, gold, coal and petroleum; it claims one billion tons of aluminum reserves, which is half of China's total and is said to be large enough to allow for more than one hundred years of mining. Baise's subterranean resources are rich and diverse. The prefecture has 12 counties and one county-level city; 10 of them are recognized by the Central Government as national level poverty counties while the remaining two are classified as Regional/Provincial poverty counties. In fact, prefectural officials told Congenoff that all 12 counties and the county-level city are equally poor, but since the prefecture had a quota limit from the central governments, only ten were granted national-level status; this results in a higher level of monetary and material support. The average rural net income in Baise was RMB 1,850 (USD 233) in 2005, compared with Guangxi's RMB 2,500 (USD 314) and China's RMB 3,255 (USD 410). Eight percent of the total population in Baise belongs to the poorest social group, according to central government standards. (Note: according to the State Statistics Bureau's standard in 2005, "poor people" refers to those with an average annual income of lower than RMB 683, or USD 86. End note.) Baise's poor account for one-fourth of Guangxi's total population in abject poverty.

5. (U) Currently, Baise is predominantly an agricultural economy. The Government's priority in its rural work is to increase farmers' incomes, especially by guiding farmers to grow cash crops. The income gap between rural mountain areas and flat lands is huge. In flat areas, the average annual income is RMB 3,095 (USD 389) and can be as high as RMB 40,000 (USD 5,060). In contrast, in remote and mountainous areas, people's average annual income can be as low as RMB 300 to 500 (USD 38 to 63), well-below China's abject poverty line.

Industry: just starting up

6. (SBU) As noted, Baise's industrial development in the past had been limited by fighting between China and Vietnam in the late 1970s. Only in recent years has Baise gradually begun developing its industrial sector, focusing on primary processing of mineral resources, especially aluminum. Baise's goal is to become the world's capital of aluminum. The central government is investing RMB 70 billion (USD 8.8 billion) to build a large aluminum refinery.

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The Prefecture's ultimate goal is to build an annual aluminum refining capacity of five million tons. Local reserves of low-quality coal and hydroelectricity provide strong support to the aluminum industry, though this also raises environment concerns, though will need to be addressed.

7. (U) Congenoff visited a local aluminum enterprise ("Yinhai"), which began operations in Baise in January 2003. It has an annual refining capacity of 100,000 tons but currently only produces 70,000 tons because of shortages of mined bauxite. The company's output ranks 30th among China's 90 aluminum refining enterprises. All of its refined aluminum bars are sold to aluminum processing enterprises in Nanhai, Guangdong Province. Employees have an average income of RMB 15,000 to 20,000 a year (USD 1,900-2,500).

8. (U) Baise also has oil reserves. With oil prices rising, the Baise government plans to expand the annual refining capacity of its refinery from one million tons to five million tons with investment

from the central government. The prefecture also plans to develop higher value-added processing industries of manganese, construction materials, pharmaceuticals, and drinking alcohol.

Benefit from Pan-PRD

19. (U) Baise is actively seeking opportunities from the Pan Pearl-River Delta (Pan-PRD) Forum (nine provinces plus Hong Kong and Macau). Currently, Baise is supplies electricity to Shenzhen. Guangzhou, Guangdong's capital city, was assigned by the central government as the Baise's sister city to help the latter with poverty-relief issues; Guangzhou provides monetary support and introduces investors to Baise. Baise officials hope the prefecture will benefit from its geographic location as the major channel of cargo from Yunnan Province to Hong Kong, and one of China's gateways to Vietnam.

Competition with ASEAN Imports

10. (U) Baise is only now beginning to face competition from Vietnam, ASEAN countries, and elsewhere due to the importation of agricultural products. Officials believe the influence of rice imports is limited since they complement Baise's current rice structure. The impact from fruit imports would be much stronger since fruit varieties in ASEAN, particularly Vietnam, could compete with Baise's produce and ASEAN fruits have the advantage of earlier harvest seasons. The impact on Baise's sugar sector is less from Thai sugar imports than from Cuba, as Cuba's much lower price negatively affects local production. Officials noted that, as Baise's agriculture grows, the ASEAN impact on its nascent cash crop industry will become more evident, and they expect Baise will need to upgrade its agriculture system to adjust. Xinhua news service recently reported that Guangxi more than doubled the importation of farm produce as of August this year, up to USD 142 million, largely due to the cancellation of import duties on most agricultural products from ASEAN countries. Of the total, USD 120 million worth of products came from Vietnam.

Comment

11. (U) Rich in material resources, the prefecture has the potential over time to substantially raise its GDP through increased industrialization. However, Baise's large rural population, the economy's gradual development, and increasing agricultural competition from Vietnam means the poor will likely remain poor for a while longer.

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